

WATER/ABJ/DON/JMW: jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4413

August 21, 2003

R E S O L U T I O N

**(RES. W-4413), MOUNTAIN MESA WATER COMPANY (MMWC).
ORDER AUTHORIZING AN INCREASE IN GENERAL METERED
RATES PRODUCING AN INCREASE IN ANNUAL REVENUES OF
\$ 13,279 OR 12.3% FOR TEST YEAR 2003.**

SUMMARY

By Draft Advice Letter accepted on July 30, 2002, MMWC seeks a 115% increase in rates for water service to recover increased operating expenses and to provide an adequate rate of return on its capital investment. This resolution grants a general rate increase in gross annual revenues of \$13,279 or 12.3% for test year 2003. This increase will provide a 12.90% rate of return on rate base in the test year.

BACKGROUND

MMWC is a Class D water utility and serves approximately 351 residential and 24 commercial metered customers approximately three miles east of the community of Lake Isabella, Kern County on the shores of Lake Isabella. MMWC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$115,829 or 114.6% in 2003.

MMWC's request shows 2003 gross revenue of \$101,106 at present rates increasing to \$216,935 at proposed rates to produce a rate of return on rate base of 8.69%.

MMWC's present rates became effective on February 20, 1992, pursuant to Resolution (Res.). W-3632, which authorized a rate increase of \$22,366 or 33.26% for test year 1992 and an 11.00% rate of return.

DISCUSSION

The Water Division (Division) made an independent analysis of MMWC's summary of earnings and issued its report in April 2003. Appendix A shows MMWC's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between MMWC's and the Division's estimates in operating revenues, expenses, and rate base.

MMWC was informed of the Division's differing views of operating revenues and expenses and disagreed with the Division's estimates of Transportation Expense and Management Salaries. In numerous telephone calls and meetings, representatives of the Division and utility met to discuss each of the estimates in dispute with the following results:

TRANSPORTATION EXPENSE

MMWC presented its reasons justifying its higher estimate of Transportation Expense. After much discussion, Division accepted MMWC's estimate, which is reflected in the adopted rates column of Appendix A.

MANAGEMENT SALARIES

MMWC provided recent updated information that demonstrated that Division's estimate of the current Management Salaries was understated. Division agreed and changed its estimate accordingly. The revised estimate, to which both parties agree, is reflected in the adopted rates column of Appendix A.

CONTRIBUTIONS

In Res. W-3632, dated February 1992, the Commission found that MMWC invested in storage facilities during 1990 in excess of its needs. G.O. 103, Rules Governing Water Service Including Minimum Standards for Design and Construction, calls for 290,000 gallons of storage for water utilities the size of MMWC. MMWC had installed 432,000 gallons of storage with the intent of developing land and providing water service to 100 new homes. Res. W-3632 found it unreasonable for existing ratepayers to support the excess capacity. Therefore \$29,000, representing the cost of the excess capacity, was treated as contributions at that time instead of plant in service. Res. W-3632 did, however, indicate that MMWC should be permitted to restore any unamortized portion of

this contribution to rate base in its next general rate case if customer growth so warrants. Since 1992 there have been 10 connections added to the system in the proposed development representing 10% of the total build-out of the development. Therefore, pursuant to Res. W-3632, the Division recommends that 10% of the unamortized portion of contribution be restored to rate base. The 10% is based on the depreciated contributions-in-aid of construction (CIAC). Since 1992, the value of the CIAC has depreciated to \$21,663. Taking out 10% of this amount results in an adjusted contribution of \$19,497 in test year 2003.

MMWC requested a rate of return of 8.69% for test year 2003. The Commission's Audit & Compliance (A&C) Branch recommends a range of rate of return of between 12.40% and 13.40% for Class D Water Utilities. Division recommends the midpoint of that range or 12.90%. In Decision (D.) 92-03-093 dated March 31, 1992, the Commission adopted the Operating-Ratio Method (ORM) of ratemaking as an alternate to the Return on Net-Investment (Rate base) method for Class C and Class D Utilities and recommended that the Division use the method that produces the higher result. Accordingly, the Branch applied these two respective methodologies to MMWC. Branch found that the return on investment calculation produced a revenue requirement of \$120,860 at the rate of return of 12.90%, the rate of return recommended by the A&C Branch. The ORM method using a rate of margin of 15% produced a revenue requirement of \$116,261, per D. 92-03-093. Branch recommends the rate base revenue requirement of \$120,860 to the Commission.

MMWC's current rate structure consists of Schedule No. 1, General Metered Service. Division's recommendation is based on increasing the service charge rates in the current Schedule No. 1 by 24.4% (twice the overall percentage increase). Division analyzed the resultant rate structure and found that the new rates fall within the guideline of recovery of up to 100% of fixed costs through the service charge, set forth in D.92-03-093 for Class D utilities. A comparison of customer bills at present and recommended rates is in Appendix C. The adopted quantities are shown in Appendix D.

AUDIT OF ACCOUNTING RECORDS

The Division staff audited MMWC's operating expenses, including employee salaries, purchased power, purchased water, insurance expenses, income and other taxes. Staff verified the operating expenses to supporting documents for substantiation and accuracy, and concluded that the operating expenses were

reasonable and prudent. Based on the results of its examination, staff also updated its calculations on depreciation expense, depreciation reserve, and CIAC from the time of the last GRC to the present.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer on October 9, 2002. There were approximately 72 complaints received by the Commission regarding the Mountain Mesa rate increase. Most complaints addressed concerns about the magnitude of the 115% increase. Since this resolution authorizes only a 12.3% increase, the 72 complaints appear to be satisfied.

A public meeting was held on October 29, 2002. The Commission's representative explained Commission rate-setting procedures. The Utility's representatives explained the need for the rate increase. Four customers attended the meeting and expressed concern that the rate increase requested was too high. It was explained that the utility's request did not necessarily result in the Commission granting the full amount. In fact, in this instance, this resolution grants a 12.3% increase as compared to MMWC's 115% request.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements.

The utility has been filing annual reports as required. MMWC needs to update its Schedule LC, Late Payment Charge; Preliminary Statement; Rule 3, Application for Service; Rule 4, Contracts; Rule 5, Special Information Required on Forms; Rule 6, Establishment and Re-establishment of Credit; Rule 7, Deposits; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Rule 13, Temporary Service; Rule 20, Water Conservation; Rule 21, Fire Protection; Form No. 2, Customer's Deposit Receipt; Form No. 3, Bill for Service.

The Division recommends that the Commission authorize a rate increase in general metered rates of \$13,279 or 12.3%. This will increase estimated annual metered revenues from \$107,581 to \$120,860 at recommended rates as shown in Appendix A. As previously explained, this increase will produce a 12.90% rate of return.

FINDINGS

1. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. The amount of \$19,947 should be treated as a Contribution at this time rather than Plant-in-Service. MMWC should be permitted to restore any unamortized amount of this contribution to rate base in its next general rate case if customer growth so warrants.
5. MMWC should be ordered to update its Schedule LC, Late Payment Charge; Preliminary Statement; Rule 3, Application for Service; Rule 4, Contracts; Rule 5, Special Information Required on Forms; Rule 6, Establishment and Re-establishment of Credit; Rule 7, Deposits; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Rule 13, Temporary Service; Rule 20, Water Conservation; Rule 21, Fire Protection; Form No. 2, Customer's Deposit Receipt; Form No. 3, Bill for Service.
6. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Mountain Mesa Water Company, to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of its filing.
2. Mountain Mesa Water Company shall record on its books of account \$19,947 in Account 271, Contributions in Aid of Construction, and shall reflect this balance in its 2004 Annual Report to the Commission.

August 21, 2003

3. Mountain Mesa Water Company is ordered to update its Schedule LC, Late Payment Charge; Preliminary Statement; Rule 3, Application for Service; Rule 4, Contracts; Rule 5, Special Information Required on Forms; Rule 6, Establishment and Re-establishment of Credit; Rule 7, Deposits; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Rule 13, Temporary Service; Rule 20, Water Conservation; Rule 21, Fire Protection; Form No. 2, Customer's Deposit Receipt; Form No. 3, Bill for Service.
4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 21, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD

LORETTA M. LYNCH

GEOFFREY F. BROWN

SUSAN P. KENNEDY

Commissioners

Appendix A
Mountain Mesa Water Company
Summary of Earnings

Item	Utility Estimated		Branch Estimated		Recommended Rates
	Present Rates 2003	Requested Rates	Present Rates	Requested Rates	
Operating Revenue					
Metered Water Revenue	\$97,620	\$213,449	\$104,095	\$213,449	\$117,374
Other Water Revenue	3486	3486	3486	3486	3486
Total Operating Revenue:	\$101,106	\$216,935	\$107,581	\$216,935	\$120,860
Operating Expenses					
Purchased Water	0	0	0	0	0
Purchased Power	29600	29600	34580	34580	34580
Employee Labor	0	0	0	0	0
Materials	25000	25000	4198	4198	4198
Contract Work (excluding water testing)	31000	31000	22213	22213	22213
Water testing portion of contract work	0	0	5000	5000	5000
Transportation	3200	3200	3200	3200	3200
Other Volume Related Expenses	0	0	3178.85	3178.85	3178.85
Other Plant Maintenance	300	300	0	0	0
DHS Fees	0	0	521	521	521
Office Salaries	19000	19000	0	0	0
Management Salaries	9000	9000	6750	6750	6750
Employee Pensions & Benefits	0	0	0	0	0
Uncollectibles	151	151	0	0	0
Office Services & Rent	315	315	0	0	0
Office Supplies	3900	3900	3101	3101	3101
Professional Services	1200	1200	1102	1102	1102
Insurance	1200	1200	1200	1200	1200
Regulatory Expenses	0	0	0	0	0
General Expenses	4400	4400	0	0	0
Total Operating Expenses:	\$128,266	\$128,266	\$85,044	\$85,044	\$85,044
Depreciation	30000	30000	9063	9063	9063
Taxes other than Income Taxes	5400	5400	2600	2600	2600
Payroll Taxes	0	0	0	0	0
Income Tax	12634	27753	2448	27068	5438
Total Deductions:	\$176,300	\$191,419	\$99,155	\$123,775	\$102,145
Net Revenue:	(\$75,194)	\$25,516	\$8,426	\$93,160	\$18,715
Rate Base					
Average Plant	375135	375135	403358	403358	403358
Depreciation Reserve	108365	108365	231288	231288	231288
Net Plant	266770	266770	172070	172070	172070
Plus Working Cash	0	0	8600	8600	8600
Plus Materials and Supplies	0	0	0	0	0
Less Advances	0	0	16042	16042	16042
Less Contributions	0	0	19497	19497	19497
Rate Base	266770	266770	\$145,131	\$145,131	\$145,131
Rate of Return:	-25.61%	8.69%	5.81%	64.19%	12.90%

APPENDIX B
MOUNTAIN MESA WATER COMPANY

Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area located adjacent to State Highway 178 and approximately three miles east of the community of Lake Isabella, Kern County.

RATES

	<u>Per Meter Per Month</u>	
Quantity Rate:		
All water, per 100 cu. ft.....	\$0.8361	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 7.59	(I)
For 3/4-inch meter	\$ 11.38	
For 1-inch meter	\$ 18.96	
For 1 1/2-inch meter	\$ 37.93	
For 2-inch meter	\$ 60.68	
For 3-inch meter	\$113.78	
For 4-inch meter	\$189.64	
For 6-inch meter	\$379.28	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITION

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX C
MOUNTAIN MESA WATER COMPANY

COMPARISON OF RATES
Test Year 2003

Metered Rate Service

Service Charge

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
All services			
5/8 x 3/4-inch meter	\$6.10	\$7.59	24.35%
3/4-inch meter	\$9.15	\$11.38	24.35%
1-inch meter	\$15.25	\$18.96	24.35%
1 1/2-inch meter	\$30.50	\$37.93	24.35%
2-inch meter	\$48.80	\$60.68	24.35%
3-inch meter	\$91.50	\$113.78	24.35%
4-inch meter	\$152.50	\$189.64	24.35%
6-inch meter	\$305.00	\$379.28	24.35%

Quantity Charge

Per 100 Cubic Feet	\$0.78	\$0.8361	7.19%
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Cost per Customer per Month at Different Usage Levels:

Average Usage per Customer: 14.88 Ccf

Usage (Ccf):	0	3	10	14.88	25	50	100
Cost at Proposed Rates:	\$7.59	\$10.10	\$15.95	\$20.03	\$28.49	\$49.40	\$91.10
Cost at Current Rates:	\$6.10	\$8.44	\$13.90	\$17.70	\$25.60	\$45.10	\$84.10
% Difference:	24.3%	19.7%	14.7%	13.2%	11.3%	9.5%	8.3%

APPENDIX D
MOUNTAIN MESA WATER COMPANY

ADOPTED QUANTITIES
TEST YEAR 2003

Offset Items:

1. Purchased Power
Southern California Edison
Schedule PA-1
Total Cost \$34,580
Total kWh 251,489 kWh
Average Unit Cost \$/kWh \$0.1375
2. Ad Valorem Taxes \$1,683

Service Connections:

- | 1. <u>Meter Size</u> | <u>Number</u> |
|----------------------------|---------------|
| 5/8" x 3/4" | 365 |
| 3/4" | 1 |
| 1" | 2 |
| 1 1/2" | 2 |
| 2" | 1 |
| 3" | 3 |
| 4" | 1 |
| Consumption (Ccf) Per Year | 90,332 |

Adopted Taxes:

Test Year 2003

- | | |
|---------------------------------|-----------|
| 1. Operation Revenues | \$120,860 |
| 2. Expenses | \$ 85,044 |
| 3. Depreciation | \$ 9,063 |
| 4. Taxes other than Income | \$ 2,600 |
| 5. Taxable Income for State Tax | \$ 24,153 |
| 6. State Tax @ 8.84% | \$ 2,135 |
| 7. Taxable Income for FIT | \$ 22,018 |
| 8. Federal Income Tax @ 15% | \$ 3,303 |
| 9. Total Income Tax | \$ 5,438 |